

Diesel supply concerns grow with Russian export ban

Middle distillate markets received another boost yesterday after Russia announced that it would be temporarily banning diesel and gasoline exports. This is at a time when there is already plenty of concern around middle distillate availability as we head into the Northern Hemisphere winter



What Russia announced

Russia announced that it would be temporarily banning the export of diesel and gasoline in order to try to take some pressure off domestic fuel prices. The ban comes into effect from 21 September with no end date as of yet. Even prior to the announcement, Russian diesel exports had come under pressure through September due to domestic refinery maintenance and efforts from the government to increase supply in the domestic market.

The impact on the middle distillate market has been clear: ICE gasoil settled 4.51% higher on the day of the announcement, whilst the November gasoil crack rallied above \$37/bbl at one stage, and the prompt ICE gasoil time spread saw its backwardation widen to more than \$35/tonne, highlighting the tightness in the middle distillate market.

Middle distillate market rallies on tightness concerns

Nov 2023 ICE Gasoil crack (US\$/bbl)



Prompt ICE Gasoil spread-Oct/Nov23 (US\$/t)



Source: Refinitiv Eikon, ING Research

How important is Russian diesel and gasoline supply?

Russia is a crucial supplier of refined products to global markets, with it exporting in the region of 1MMbbls/d of diesel. In fact, Russia is the second-largest exporter of diesel, with just the US exporting larger volumes. As a result, this is a key development as we head into the Northern Hemisphere winter, a period where we usually see a seasonal pick-up in demand.

The export ban is less concerning for the gasoline market, with Russian exports of gasoline and gasoline components averaging around 145Mbbls/d so far in 2023, a loss that the global market should be able to absorb more easily.

How severe of an impact the loss of Russian diesel has on the global market will really depend on how long the export ban is in place. Although, given the likely domestic stock build we will see as a result of the ban, we would not expect it to be prolonged.

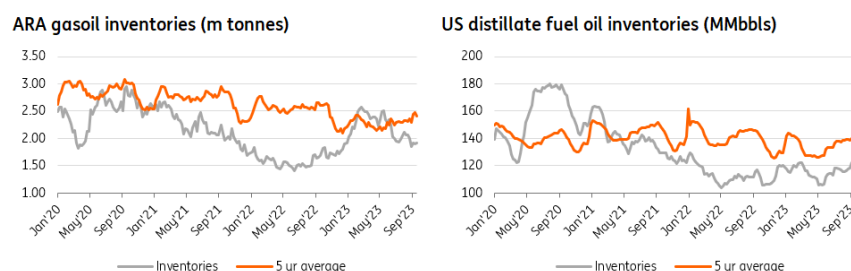
Ban only adds to an already-tight middle distillate market

The middle distillate market was already seeing significant strength ahead of this ban with inventories tight in the US, Europe and Asia as we head into the Northern Hemisphere winter. There were a number of factors behind this tightness, including OPEC+ supply cuts, recovering air travel, limited refining capacity growth, and in Europe, the struggle of being able to fully replace Russian middle distillates after the EU ban came into effect in February.

The loss of around 1MMbbls/d of Russian diesel in the global market will be felt and only reinforces the supportive view we have held on middle distillate cracks and as a result on refinery margins. This does leave some upside risk to our view that the ICE gasoil crack would average US\$30/bbl for the remainder of the year. How much upside really depends on the duration of the ban.

We believe that margins will remain elevated in an attempt to get refiners to increase run rates. However, given that part of the issue is due to constraints in refining capacity as well as tightness in the medium sour crude market, the ability to significantly increase run rates and increase middle distillate supply could be difficult.

Middle distillates inventories are already tight



Source: EIA, Refinitiv Eikon, ING Research

Author

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@asia.ing.com

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